

Message Text

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44

ACTION NEA-09

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FM AMEMBASSY TEHRAN

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INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

AMEMBASSY BEIRUT

AMEMBASSY CARACAS

AMCONSUL DHAHRAN

AMEMBASSY DOHA

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LIBREVILLE

AMEMBASSY LONDON

AMEMBASSY QUITO

AMEMBASSY TRIPOLI

USMISSION EC BRUSSELS

USMISSION OECD PARIS

C O N F I D E N T I A L TEHRAN 1357

E.O. 11652: GDS

TAGS: ENRG OPEC IR

SUBJ: OIL POLICY

1. IRANIAN REACTION TO SECRETARY KISSINGER'S SPEECH TO NATIONAL
PRESS CLUB FOCUSSED ON STATEMENT THAT "MASSIVE DEVELOPMENT OF
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ALTERNATIVE SOURCES WILL CONFRONT OPEC WITH A CHOICE: THEY CAN

ACCEPT A SIGNIFICANT PRICE REDUCTION NOW IN RETURN FOR STABILITY OVER A LONGER PERIOD; OR THEY CAN RUN THE RISK OF A DRAMATIC BREAK IN PRICES WHEN THE PROGRAM OF ALTERNATIVE SOURCES BEGINS TO PAY OFF." BOTH MEDIA AND INFORMED NIOC SOURCES CONSIDER THIS TO BE AN ULTIMATUM BEHIND WHICH THEY DOUBT THERE IS ANY SUBSTANCE. A KAYHAN EDITORIAL (FEB 5) ENTITLED "MORE OF THE SAME FROM KISSINGER," CLAIMED US POLICY IS "AIMED AT MAKING OPEC MEMBERS PANIC AND DRIVE OIL PRICES DOWN BY UNHEALTHY COMPETITION FOR SALES," AND COMMENTED THE "THE CHALLENGE FACING OPEC IS NOT CHOOSING BETWEEN BANKRUPTCY IN THE LONG RUN OR STABLE LOWER PRICES, AS KISSINGER WOULD LIKE TO THINK. THE REAL CHALLENGE IS TO AVOID BECOMING OUTFLUFFED BY MANEUVERS WHOSE FUTILITY HAS ALREADY BEEN PROVED."

2. NIOC OFFICIALS BELIEVE THAT ENVIRONMENTALISTS AND COURTS WILL CONTINUE TO SLOW DOWN AND RENDER MORE EXPENSIVE THE DEVELOPMENT OF COAL AND OF NUCLEAR ENERGY IN THE U.S., THAT LIQUEFACTION AND GASIFICATION OF COAL AND OIL FROM SHALE WILL NOT ADD SIGNIFICANTLY TO ENERGY SUPPLIES FOR YEARS TO COME AND WILL REQUIRE STAGERING INVESTMENTS, AND THAT SIGNIFICANT USE OF NON-CONVENTIONAL SOURCES (BREEDER TECHNOLOGY, SOLAR, FUSION, ETC) LIES IN A FUTURE WHEN IRAN WILL NO LONGER BE A CRUDE OIL EXPORTER. THEY FURTHER BELIEVE THAT MAJOR CONSUMERS WILL EVENTUALLY BE FORCED TO RESUME ECONOMIC GROWTH AND THAT IN CONSEQUENCE ENERGY CONSUMPTION WILL SOON BEGIN GROWING AGAIN, ALBEIT MORE SLOWLY. OUR PERCEPTION IS THAT THESE OFFICIALS BELIEVE INCREASE AND DIVERSIFICATION OF CONVENTIONAL PETROLEUM SUPPLIES ALSO PRESENTS NO PROBLEM AS LONG AS THE "THREE SURPLUS STATES" -- SAUDI ARABI, ABU DHABI AND KUWAIT -- WILL RECOGNIZE THAT THEIR OWN BEST INTEREST LIES IN DOING THEIR "FAIR SHARE" TO REDUCE PRODUCTION AS NEEDED TO BALANCE SUPPLY AND DEMAND. THE ONLY CONCERN THAT SEEMS TO HAUNT THE BACKS OF THEIR MINDS IS THAT SAG MIGHT GIVE UP THE GAME OUT OF GRATITUDE IF THE USG HELPS TO ACHIEVE A "SATISFACTORY" SETTLEMENT OF THE ARAB-ISRAELI CONFLICT. NIOC OFFICIALS SEEM REASONABLY CONFIDENT, HOWEVER, THAT OPEC AND OPPOSITION WITHIN SAG WILL PREVENT THIS.

3. IRANIAN MEDIA AND OFFICIALS ALSO PROFESS NOT ONLY THAT THEY ARE NOT CONCERNED AT CONSUMERS' CONSERVATION MOVES, BUT THAT THEY WELCOME THEM. KAYHAN EDITORIAL (FEB 9) ENTITLED "CUTBACKS IN OIL CONSUMPTION A HEALTHY TREND" LAUDS THE IEA DECISION TO CUT

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CONSUMPTION AS THE RIGHT MOVE, THOUGH FOR WRONG AND ILLUSORY REASONS (I.E. TO FORCE PRICE CUTS). OPEC, SAYS THE EDITORIAL, SHOULD FEEL "PROUD AND HAPPY AT THE MOVE BECAUSE IT IS CONCRETE PROOF OF THE CONTENTION THAT WANTON USE OF OIL ... PRIMARILY STEMMED FROM TYRANICALLY LOW PRICES DURING THE POST-WORLD WAR II PERIOD. IN FACT, THE RIGHT PRICES ACHIEVED WHAT DECADES OF EXHORTATION AND WARNINGS BY ECOLOGISTS AND ECONOMISTS COULD NOT...

PRICES SHOULD REMAIN AT THEIR PROPER LEVEL TO KEEP THE BUSINESS
HEAIND IN ITS NEW, HEALTHY DIRECTION... THE "RIGHT" PRICES
ALSO ENCOURAGE DEVELOPMENT OF ALTERNATIVE SOURCES OF ENERGY,
WHICH MUST AT SOME TIME COMPLETELY OBIATE THE USE OF OIL AS FUEL."
THE EDITORIAL CONTINUES: "THE EXPECTED DROP IN CONSUMPTION WILL
NATURALLY LEAD TO A CORRESPONDING DECREASE IN PRODUCTION. AND,
UNLESS THEY TAKE THE SHADOW FOR THE SUBSTANCE, OPEC MEMBERS WILL
BE SAVED FROM BEING STIFLED BY MASSIVE INFLOWS OF FOREIGN CURRENCY.
AND ALL THAT THE OTHERS HAVE TO DO IS TO SPEND MORE WISELY."

4. IN SHORT, A NUMBER OF IRANIAN OFFICIALS SIMPLY DO NOT BELIEVE
THAT THE ANALYSIS SET FORTH IN THE SECRETARY'S SPEECH IS SOUNDLY
GROUNDED IN OBJECTIVE FACTS. FURTHER, EVEN THOUGH WE HAVE POINTED
OUT THE SECRETARY'S EMPHASIS ON CONCILIATION AND COOPERATION, MANY
OF THESE OFFICIALS PERSIST IN THE GUT REACTION THAT THE USG IS
ISSUING HOLLOW THREATS.
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